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EUROPEAN BUSINESS

SAP's End Run Around Oracle

Its TomorrowNow unit is siphoning service revenue from its archrival

Like a lot of companies, Praxair Inc. () got caught by the wave of consolidation sweeping the software industry. The $6.6 billion producer of industrial gases, based in Danbury, Conn., ran financial and manufacturing software from J.D. Edwards & Co. and human resources programs from PeopleSoft Inc. Then, in June, 2003, PeopleSoft announced Days later, Oracle Corp. () made a hostile takeover bid for PeopleSoft.

Now all three companies are rolled into one — and Praxair is plenty worried about the future o has taken a bold step. Instead of paying Oracle a fee equal to 22% of the value of its softwar support, Praxair has signed up with a 100-person outfit in Bryan, Tex., called TomorrowNow price. Praxair's chief information officer, Melissa Buckwalter, says the move will give her com investments. No matter how Oracle goes about weaving together all its programs into a hybri keep running its old software.

The curious wrinkle is that tiny TomorrowNow has been a wholly owned subsidiary of Germar January. In other words, SAP is now in the business of providing post-sales support for softwa a sly move, emblematic of the bitter battle being waged by the titans of corporate software. "V cheeky way for SAP to start going after its competitors' customer base," says JPMorgan Chas Segrich in London.

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TURNING ON THE CHARM

The moment is ripe. Oracle's acquisition binge has upended the old order because PeopleSoft and J.D. Edwards programs will be gradually phased out. That's prompting some customers to consider switching. To woo them, SAP is turning on the charm. By supporting Oracle's acquired packages, for instance, SAP lets those customers postpone upgrades to newer versions — giving them time to consider other options. Still, TomorrowNow founder and Chief Executive Andrew J. Nelson insists that his staff doesn't promote one brand of software over another. "It's essential that our customers don't think we're there to push them to SAP," he says.

TomorrowNow also siphons off from Oracle millions of dollars per customer in annual support revenues. "This is a customer-friendly move with an ulterior motive," says Joshua Greenbaum, principal for Enterprise Applications Consulting, a Berkeley (Calif.) advisory firm.

Oracle waves off the threat. "It is highly unlikely that SAP will convert a significant number of customers," says spokesman Bob Wynne. Oracle clients "aren't only looking for the best deal" when it comes to service, he adds. "They want support from the company that develops the software."

Still, TomorrowNow is on a roll. Since being acquired by SAP, it has nearly doubled its staff and client base, which now includes Safeway Inc. (), furniture-maker Haworth, Brigham Young University, and the cities of Atlanta, Huntsville, Ala., and Flint, Mich. SAP CEO Henning Kagermann says TomorrowNow has been "instrumental" in the success of a program that has already lured nearly two dozen Oracle customers to SAP. "This has to be done in a way that makes customers feel comfortable," Kagermann says.
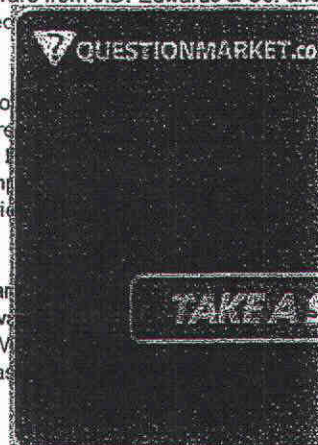
Oracle is taking notice. At a late September users' conference in San Francisco, the company unveiled longer support programs for users of old PeopleSoft and J.D. Edwards software. And though he hasn't made any firm promises yet, Oracle CEO Lawrence J. Ellison says his company is considering allowing future applications to run on non-Oracle databases -- a significant issue for the thousands of PeopleSoft and J.D. Edwards customers using servers from IBM () and other computer makers. Oracle is sweetening its message. But with TomorrowNow in its arsenal, SAP has a stealth weapon to fight back.

By Andy Reinhardt in Paris, with Sarah Lacy in San Francisco

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